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SUBJECT: 2007 AFGHANISTAN DEVELOPMENT FORM READ OUT

11. SUMMARY: The 2007 Afghanistan Development Forum (ADF) was well attended and more coherently structured than its predecessor in 2005. The plenary Q working group Q plenary structure led to vigorous debate and helped to shape an emerging consensus on critical issues including aid effectiveness, provincial planning and development and capacity development writ large. President Karzai, while warm, self-deprecating and generous, pointed out several areas where the donor Government of Afghanistan (GoA) partnership could improve. Karzai was seconded by Energy and Water Minister Khan in citing electricity as Afghanistan's highest donor priority. Ambassador Wood, making his first public presentation, complimented the Afghans for their leadership and progress and reaffirmed the US commitment to Afghanistan for the long term. End Summary

12. The Afghanistan Development Forum (ADF) is emerging as the GoA's signature forum for dialogue and exploration with the international community on strategic development issues, both short and long term. Held roughly every two years, it complements the Joint Coordination and Monitoring Board (JCMB) mechanism, the joint donor-GoA body charged with setting overall strategic direction and monitoring progress on the Afghanistan Compact and the ANDS. The ADF was timed to feed into the May 1 JCMB meeting, which included a read out of the ADF's results. The 2007 ADF Q Towards a National Development Strategy for a Prosperous Afghanistan - was held April 29 and 30 in the Marble Hall of the Ministry of Foreign Affairs. In attendance were upwards of fifty embassies and other donors and 25 GoA ministries and institutions. Minister of Finance Anwar-ul-Haq Ahadi opened a packed agenda by focusing on a major ADF theme Q repeated thanks for the donor efforts to date followed by a strong plea for improving aid effectiveness, principally by directing more aid flows through the GoA budget.

13. President Karzai was warm and captivating, noting with satisfaction that, over the past two years, 80,000 more Afghan infants are now alive who would not be, were it not for GoA-donor efforts in

maternal and child health. He chided his own government for failing to deliver the National Capacity Development Strategy that had been promised for the ADF. He conceded that corruption exists, in the GoA, NGOs and international organizations, and noted that he was still reviewing pay and grade reform due to questions he has about its sustainability after donors leave. He urged donors to reduce the cost side of assistance by hiring experts from the region, coordinating assistance efforts better and building Afghan capacity to plan and manage the work directly, which he agreed they could not yet really do on their own. He also called for greater international coordination in the fight against poppy and asked donors to give additional attention to Afghanistan's energy sector needs.

14. Speeches by Senior Economic Advisor Nadiri, World Bank Vice President Patel and UNAMA Special Representative of the Secretary General Koenigs generally addressed the themes of leadership and aid effectiveness. The German Development Minister and EU representative highlighted the importance of upcoming IDA-15 replenishment negotiations for sustaining international financial institution assistance levels for at least five years.

15. Ambassador Wood, in his first speech since arriving in Afghanistan, emphasized the strong Afghan leadership he was seeing through this ADF, the breadth of the Afghanistan National Development Strategy (ANDS) and the growing effectiveness of the Joint Coordination and Monitoring Board (JCMB)

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process that governs it, and our high opinion of the education and health sector strategies that the ANDS process has spawned. He reaffirmed the U.S. commitment to remain for the long term and meet our pledges in the Afghanistan Compact. He cited the recently mobilized Afghans Building Capacity (ABC) contract as a tangible statement of our commitment to capacity development and noted that one of its key goals is to increase the amount of Afghan goods and services we use to deliver development assistance. He reinforced the need to continue to focus on energy services and the creation of an enabling environment that will foster private sector growth in all directions. Ambassador Wood commented on the pernicious challenge of poppy production and trafficking, and the threat they represent to all efforts and investments made by the Afghans and donors alike. He closed by stating his optimism that the Afghans were clearly up to the tasks ahead, based on the progress seen over the past twelve months.

16. The Working Groups on Aid Effectiveness, Provincial Planning and Development and Capacity Development formed a substantive and very positive component of this ADF. Although they were based on hurried consultations concluding just days before the ADF, they ultimately produced cohesive discussion papers, vigorous debates and an emerging consensus on key issues.

17. The Aid Effectiveness Working Group resulted in a narrowing of the gap in the GoA and USG views, although differences remain. The plenary discussions were repetitions of a common GoA refrain that foreign assistance costs are too high for results achieved and the solution is more funding directly through the GoA budget. USAID Mission Director Waskin, in his remarks, made it clear that the only true measure of aid effectiveness is the improvement in the lives of Afghans. As the second largest

donor to the ARTF (\$275 million through FY 2006) we are fully committed to investing directly through the GoA budget. Further, USAID has activities under way with pilot ministries to directly disburse funds and develop the capacity to effectively and safely manage those funds.

¶8. In contrast, the three-hour Working Group discussion that followed was marked by pragmatism and moderation, with the GoA and other donors agreeing that current GoA capacity to manage significant new resources is lacking. Finance Minister Ahadi requested a GoA-donor effort to establish a common set of acceptable fiduciary performance standards based on international norms, identify the breakdowns in the current system that retard timely execution of GoA budget resources and expedite capacity building efforts that will enable the GoA to move funds and projects more quickly through to completion.

¶9. The Working Group on Provincial Planning and Development revealed its own share of concerns and competing interests. The Working Group opened with a discussion of the need to dramatically strengthen the delivery of services to communities at the provincial level, if Afghanistan is to successfully transform itself into a stable and growing state. The GoA described the intense interest on the part of the Parliament in knowing - and influencing - the amount of funds going into each province. In parallel, the governors in attendance decried the shortage of development funds in general and their frequent frustration at the distribution of the development activities within their provinces. Other participants expressed their fear that PRTQs would be programming in a unilateral way, undermining the attempts to plan and budget more

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strategically.

¶10. The GoA described two significant efforts - improving the Provincial Development Planning (PDP) process and linking it with the ANDS, and expanding the Ministry of Finance program to develop a meaningful provincial budget that would reflect those plans. ISAF/NATO representatives noted that PRT donor funds are linked to development programs and processes of the NATO member countries and thus cannot be allocated to other provinces. USAID Deputy Director Carl Abdou Rahmaan indicated that PRTQs are strong supporters of the PDP and provincial budgeting processes and will be providing extensive technical and operational assistance to governors and others to refine the existing PDPQs. Note: The theme of ISAFQs upcoming May PRT Conference will be coordinating PRT activities with the ANDS. End Note.

¶11. At JCMB IV in Berlin, the GoA had committed to prepare a broad-spectrum national capacity development strategy, for presentation at this ADF. During the spring, substantial progress was made in the Public Service QpillarQ of that strategy, but no movement was detected on a broader framework dealing with the private sector, NGOQs and public at large. Participants were pleasantly surprised when Economy Minister Shams opened the Working Group by announcing the GoAQs intention to establish an inter-ministerial commission (similar to the commission on Energy) with a broad mandate to coordinate all capacity development programs. Although the accompanying discussion paper has its rough edges (e.g., ceding final approval on all capacity building programs to the commission,

mandating that all technical assistance contracts devote at least 25 percent of the resources to capacity building and requiring that donors dramatically increase their benefits packages for diaspora Afghans being recruited to take on technical and managerial assignments), the donors were unanimous in applauding the GoA leadership that this proposal represents. Most donor comments focused on the need to start slowly while capacity was developed within the Ministry of Economy to play the role envisioned for it as the day-to-day facilitator of this commission.

¶12. Sector Strategies: Ministers of Education Atmar and Public Health Fatimie presented positive, well thought out strategies for strengthening education and health care. Atmar presented a Qhigh costQ strategy, developed through extensive consultations with stakeholders in and out of government. It calls for \$2.56 billion over four years and would meet the ANDS benchmarks. Minister Fatimie proposed a continuation of his successful current strategy, which is built around establishment of national performance standards and out-sourcing service delivery to NGOQs. This has brought basic health care within the reach of more than 80 percent of the people, and lead to the 80,000 additional Afghan infants annually noted by President Karzai. Opinions differ regarding the best way to continue to expand access but most observers use his strategy as an example of the way to expand GoA service delivery in the face of very limited capacity.

¶13. Minister of Energy and Water Ismail Khan noted in his remarks that reliable and affordable electricity is essential for economic growth, investment, poverty alleviation and political stability and is a fundamental test for the GOA. He touched all the right buttons on the need for reform in the power sector: distribution sector reform; commercialization of the electricity utility so that it is transparent and accountable; cost recovery and

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the need for tariff increases; regulatory reform; renewable energy and strengthening of capacity. He was appreciative of the USG initiative to place 100 MW of generation capacity in Kabul by the end of 2008, and echoed President Karzai in referring to it as the countryQs most urgent need. Khan spoke of the need to manage the countryQs water resources, lamenting that Afghanistan was unable to harness its water and providing a wish list of power projects, but without addressing the funding constraints. While Khan said all the right things, his remarks were not consistent with the draft Power Sector Strategy he released. The strategy paper contains some misrepresentation of policy, has flawed data in several places, does not link power to the broader macro-economic and social goals, and provides only a cursory treatment of capacity building. (NOTE: Dr. Nadiri also underscored the urgency of addressing the supply of electricity. END NOTE)

¶14. The ADF closed with discussions devoted to anti-corruption, rural and urban development, counter-narcotics and refugees. This is the first time that refugee issues have been included on the ADF agenda, marking a realization that the return of 5,000,000 refugees represents not only a humanitarian concern, but a significant development issue. Minister of Refugees and Repatriation UstED Mohammad Akbar [Note: who lost a Parliamentary vote of no-confidence on May 10] and UNHCR Country Rep Salvatore Lombardo sought to highlight a number of

issues. Principal among these was the precarious situation of the 4.8 million refugees who have returned since 2002 and the need to build GOA capacity to deal with the reintegration needs these returnees.

¶15. Comment: The 2007 ADF demonstrated strong Afghan leadership in critical areas and served to highlight the enormous amount of hard work accomplished since the 2005 ADF. The 2007 ADF, on balance, showed a more mature donor-GoA partnership, confronting problems without easy solutions in a serious, pragmatic and thoughtful way. This ADF had the salutary effect of forcing divergent interests within the GoA to reach consensus, notably in areas of provincial planning and capacity development. The challenge going forward will be to sustain the momentum in these critical areas as summer arrives and other activities begin to distract the overstretched GoA principals. End Comment

WOOD